Loyalty or Competence: Political Use of Performance Information and Negativity Bias

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Abstract

This study explores how political principals weigh loyalty and competence in public personnel decisions. By exploiting the abrupt shift in political leadership following the impeachment of President Park of Korea, we examine how the newly elected president made the decisions to retain or dismiss 118 agency heads appointed by the previous administration. Evidence shows the importance of loyalty in managerial survival; those who had a political patronage relationship with the ousted president were less likely to survive in the new administration. However, we also demonstrate the relevance of competence as measured by the outcomes of agency performance evaluation. Further, we show the existence of negativity bias; the punishment for low performance is greater than the reward for high performance. Finally, we provide support for the idea that political principals reward loyalists but only if they show acceptable levels of competence.

Keywords: loyalty; competence; performance information; personnel decisions; negativity bias; turnover

Evidence for Practice

- This study explores how political principals weigh loyalty and competence in public personnel decisions.
- Political principals' punishment for low performance is greater than their rewards for good performance.
- Political principals reward loyalists but only if they show acceptable levels of competence.
- The availability of performance information may protect bureaucratic expertise from political opportunism.

Introduction

Scholars tend to agree that the power of selection, retention, promotion, and dismissal of public managers is one of the most valuable instruments of political principals (i.e., the president or the prime minister in a parliamentary system) for influencing the bureaucracy. However, previous studies have reported differing results as to how political principals, and elected officials more broadly, exercise this important power. Specifically, scholars have divergent views about how loyalty is weighed against competence during the process. Some studies have reported the triumph of loyalty over competence (Moynihan and Roberts 2010; Bach and Veit 2017). Indeed, a political principal may choose loyalists who can actively promote and advance his or her political philosophy and missions in key bureaucratic posts (Moe 1982; Wood and Waterman 1994). However, others still report the importance of competence or other meritocratic criteria (Lewis 2008; Boyne et al. 2010a; Hollibaugh et al. 2014).

Collectively, previous findings suggest that elected officials have considered both political and meritocratic selection criteria in their personnel decisions. Past research indicates that political principals select individuals on the basis of political criteria (e.g., loyalty, ideology, and programmatic support) in order to enhance responsiveness and control, whereas they emphasize meritocratic criteria (e.g., expertise, experience, and performance) to improve the technical capacity of the organization (Moe 1985; Hollibaugh 2014). Previous literature, however, does not clarify how political principals and elected officials balance these two sets of criteria. This is especially important because the principals' demands for "political preferment" and "technical competence" generally clash (Bawn 1995; Epstein and O'Halloran 1999; Gailmard and Patty 2007; Heclo 1988; Wood and Waterman 1991).[1] We thus ask: How

[1] Political and meritocratic criteria may not necessarily conflict with one another, although some previous studies (e.g., Lewis 2008; Gallo and Lewis 2011) report the tradeoff between them; there may be candidates who show high levels of both loyalty and competence. Like most previous studies in this domain, however, our main goal is

do political principals weigh competing information on loyalty and competence in the selection, retention, promotion, and dismissal of public managers? The lack of scholarly attention to this question is a serious gap in the literature given the increasing politicization of public service, especially at the top-level of management (e.g., Ennser-Jedenastik 2015; Rutherford and Lozano 2018).

To contribute to this line of scholarly discussions, this study examines how political principals consider political and meritocratic criteria when they decide to retain or dismiss heads of public agencies. In doing so, we propose a model in which political principals reward the most loyal agents (or the least disloyal as we explain later) but only if their measured levels of competence (as measured by performance outcomes) exceed a set of minimal acceptability criteria. Expressed formally, the measured level of merit functions primarily as a *minimum constraint*. Such a negativity bias in the consideration of competence is explained by the responsibility attribution processes in the public sector (Nielsen and Moynihan 2017); recognizing the risks of blame for retaining incompetent agents, political principals disfavor agents with poor performance regardless of their levels of loyalty.

This study then offers an empirical test of this proposed model. We analyzed the retention or dismissal outcomes of the heads of Korean public agencies. Previous empirical research on managerial turnover suffers a critical problem due to the difficulty in distinguishing between forced and voluntary departures (Grissom et al. 2016; Petrovsky et al. 2017). In this study, we address this challenge to some extent by taking advantage of the abrupt and completely unexpected change in political leadership immediately following the impeachment of President Park Geun-hye of Korea. The newly elected president faced the decision of whether to retain or dismiss the agency heads whose fixed term contracts with the previous administration had

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to investigate how a political principal makes personnel decisions when these two criteria clash.

not been terminated. In such a circumstance, the observed turnovers in management are more likely to be viewed as involuntary.

The unique setting of the unexpected impeachment allows us to examine how political principals consider conflicting information about loyalty and competence. In the U.S. system, researchers cannot normally observe how political principals balance loyalty and competence following a change in political leadership. This is because removing holdover political appointees from the previous regime is a characteristic of the system; there exists little variation in personnel decisions because of the wholesale turnover (Lewis 2008). However, considering the full spectrum of bureaucratic designs across democracies, the U.S. system is a fairly extreme model. In many countries (e.g., the U.K., Australia, New Zealand, and Scandinavia) that adopted New Public Management reforms where agency heads sign fixed-term contracts with ministers, newly elected political principals cannot dismiss holdover appointees "at-will" (OECD 2012; Pollitt and Bouckaert 2017). This is the case in Korea as well. To ensure the neutral competence of bureaucracy, Korean lawmakers have designed rules and processes that protect the tenure of agency heads from the whims of presidential power. In order to dismiss an agency head before the end of their contract, the President should have obtained prior consent from a nonpartisan committee comprising public administrators and civilians. Of course, in practice, presidents find ways to remove some holdover agency heads despite the rules. However, a sizeable share of them are also retained, which creates a variation in the personnel decisions, and this variation was especially salient in our studied case.

Moreover, the unexpected shift in presidency also offers a unique opportunity to observe the true impact of performance on personnel decisions. In estimating the impact of performance, one difficulty is that researchers cannot credibly exclude the influence of political power from organizational performance; the outcomes of performance evaluations may themselves be

influenced by political powers that favor loyalty to the political principal, blurring the boundary between loyalty and performance (Lavertu and Moynihan 2012; Lavertu et al. 2013). In this study, however, the performance evaluation of public agencies was conducted when there was a power vacuum created by the impeachment. Ousted President Park was removed from office on March 10, 2017, and President Moon Jae-in was elected on May 9, 2017. The performance evaluation was processed between these two events during mid-March and April 2017. Given this unique timeline, the performance outcomes may be viewed as an objectively measured level of technical competence.

This study is also unique in its quasi-experimental setting. We operationalized an agency head's competence with the agency's performance outcome (i.e., grade) evaluated by a centralized performance management system. In this system, agencies are evaluated according to a continuous score, but each agency is assigned a letter grade (from A to E) based on sharp cutoffs. Since the continuous score is kept confidential and only the letter grades are publicly released, the discontinuities inherent in the assignment of grades offer an opportunity to investigate the impact of organizational performance on managerial turnover using a regression discontinuity design (RDD). This evidence is especially valuable given that "the dynamics of the relationship between turnover and performance remain uncertain" in public administration literature (Grissom et al. 2016, 247).

This paper proceeds as follows. We explain our hypotheses in the next section and then describe the performance evaluation system and the surrounding changes in political leadership that occurred in 2017 in Korea. Section 4 describes the method we employed as well as the data. In Section 5, we explain our results from graphical and regression analyses. Finally, Section 6 discusses the policy and scholarly implications of the findings and concludes the study.

Theory

The Relevance of Loyalty and Performance

Prior research has consistently demonstrated the relevance of partisan loyalty for personnel decisions in the public sector (Moynihan and Roberts 2010; Dahlström and Niklasson 2013; Ennser-Jedenastik 2014; Fleischer 2016; Kopecky et al. 2016; Bach and Veit 2017). In many democracies, the partisan affiliation of top public managers with a governing party or the president has been found to explain managerial survival and the length of their tenure (e.g., Wood and Waterman 1994; Epstein and O'Halloran 1999; Moynihan and Roberts 2010; John and Poguntke 2012; Lewis and Waterman 2013; Ennser-Jedenastik 2014). As Epstein and O'Halloran (1999, 60) put it, "loyalty to the president's goals will be the primary factor in choosing executive branch officials."[2]

In many countries around the world, such politicization of senior public managers is becoming increasingly important to political principals for making bureaucracies responsive to their political agenda (e.g., Peters and Pierre 2004; Christensen et al. 2014; Dahlström and Niklasson 2013). Research has found that the primary motivation for bureaucratic politicization is the political principal's desire to control the bureaucracy (e.g., Peters and Pierre 2004; Kopecky et al. 2016). As the agendas of most bureaucratic organizations have been set by laws that predate the newly elected president or prime minister's arrival in office, public managers may prefer the status quo to change. Therefore, in order to make public organizations more

[2] Relevant previous studies may be grouped into two distinct categories, namely, the appointment and dismissal of top public managers. We have pooled these two categories of literature together as they can both be generalized as political principals' "choices" of some over others. Further, due to the unique setting of the unexpected political change, the incoming president's decisions may be viewed as both dismissal and appointment; among the 118 agency heads appointed by the previous president, some were chosen to leave (i.e., dismissed) and others were chosen to manage (i.e., retained or *as if* appointed).

responsive, political principals may place the highest value on political criteria such as loyalty (i.e., a potential appointee's commitment to the principals' visions, ideologies, and programs) in personnel decisions.

The demand for loyalty may be especially important when there is a partisan shift in government (e.g., Meyer-Sahling and Jan-Hinrik 2008; Boyne et al. 2010b; Dahlstrom and Holmgren 2017; see also McCabe et al. 2008). For instance, Dahlstrom and Holmgren (2017) show that agency heads are considerably more likely to leave their posts following partisan shifts even in the presence of institutional systems designed to insulate the bureaucracy from political influence. In such circumstances, newly elected political principals may regard political patronage relationships with the previous political principal as a sign of disloyalty (i.e., a sign of misalignment with their visions, ideologies, and programs). This statement is consistent with the view that patronage appointees are presumed to be the most loyal to the principals (Gallo and Lewis 2012; Hollibaugh 2014). Therefore, we have the following hypothesis:

H1: When there is a partisan shift in government, the agency heads who had political patronage relationships with the previous political principals are less likely to survive.

The critical importance of political criteria such as loyalty does not necessarily rule out the relevance of meritocratic criteria in public personnel decisions. Indeed, loyalty alone is unlikely to allow political principals to effectively control the bureaucracy. The existing literature indicates that political sensitivity (and thus responsiveness) is also an aspect of bureaucratic competency (e.g., Hood and Lodge 2006). Further, as Gallo and Lewis (2011, 220) observe, "the skills necessary to win campaigns are distinct from those required to govern." Given such evidence, political principals who seek to control the bureaucracy may be careful

in selecting individuals possessing a high level of competency for carrying out their programs.

The problem is, however, that public managers' competency is not easily observable. This is especially true when political principals need to decide whether to retain or dismiss individuals appointed by the previous administration. In such circumstances, the performance outcomes achieved by agency heads in working as the top managers may become the most relevant and direct evidence of their competency in the position.[3] This may be especially true when the performance outcomes are public information (Hong and Kim 2017; Kim and Hong 2019). Prior research also suggests that citizens reward or punish public managers based on the published agency performance information (e.g., James and John 2006; Holbein 2016; Marvel 2015; Rothbart et al. 2019; but see Meier 2019). Given such evidence, political principals may also view agency performance information as an indicator of managerial competence (Gallo and Lewis 2011). The present discussion indicates that, following partisan shifts in government, newly elected political principals may regard performance outcomes as a sign of competency and reward them. Therefore, we have the following hypothesis:

H2: When there is a partisan shift in government, the heads of agencies with higher performance levels are more likely to survive than the heads of agencies with lower performance levels.

Asymmetric Impacts of Low and High Performance Levels

We have discussed that political principals may regard performance information as a measure of agency heads' competency in making personnel decisions. That being said, the existing

[3] In the absence of such performance information, the careers of public managers may also serve as evidence of competency (Christensen and Lægreid 2009; Bach and Veit 2018; see also Olvera and Avellaneda 2019).

literature shows that politicians may not symmetrically pay attention to high and low performance outcomes; emerging evidence suggests that elected officials are more attentive to the low rather than high performance of the public service. This evidence is explained by the existence of negativity bias in the political processes of responsibility attribution (e.g., Nielsen and Moynihan 2017).

The cognitive foundation for this evidence is that politicians are blame avoiders rather than credit claimants; policymakers are motivated primarily by the desire to avoid blame for negative policy outcomes rather than by the incentive to claim credit for positive ones (Weaver 1986; see also Hood 2011). This "blame avoidance" nature of politicians may be the result of voters' tendency to be more sensitive to losses than gains (Weaver 1986; James and John 2007; Boyne et al. 2009; Olsen 2017; Hong 2018; Hong et al. 2019). As Weaver (1986, 373) puts it, "Persons who have suffered losses are more likely to notice the loss, to feel aggrieved and to act on that grievance, than gainers are to act on the basis of their improved state." Previous works in various disciplines have provided support for this psychological trait of individuals (e.g., Kahneman and Tversky 1979).

Politicians may engage in a number of strategies to avoid blame; for instance, they may become risk averse in implementing policies (e.g., Weaver 1986). When performance information about public service is publicly available, elected officials may choose to attribute the responsibility for poor performance outcomes to someone else to "deflect blame by blaming others." (Weaver 1986, 385; Nielsen and Moynihan 2017) Previous studies have consistently shown that performance information about public services affects the electoral outcomes of the responsible policymakers (Berry and Howell 2007; Boyne et al. 2009; James and John 2007; James and Moseley 2014; Holbein 2016). Given that citizens use performance information about public service to vote against incumbent politicians, these elected officials may thus have

a strong incentive to shift blame onto public managers (James et al. 2016).

In the context of our studied case in which political principals decide whether to retain or dismiss agency heads appointed by the previous administration, these principals may fear the potential blame against their choices of keeping those who demonstrated poor performance. Therefore, political principals will engage in the responsibility attribution of past performance outcomes, and the process will exhibit negativity bias; the punishment for low performance will be greater than the reward for high performance. Therefore, we offer the following prediction, which we label the *negativity bias hypothesis*.

> *H3*: The impact of agency performance on managerial survival will be most pronounced in cases of low performance.

Weighing Loyalty and Performance

An important inference from the discussion of the negativity bias hypothesis is that political principals will normally try to find a set of performance outcomes that are "good enough" and that satisfy a minimal acceptability criterion rather than to search for the best ones (e.g., Battaglio et al. 2019; Bellé et al. 2018; Hong 2018; Hong et al. 2019). They will have a strong incentive to exclude a potential appointee with poor performance from the list of candidates, but once performance exceeds a certain threshold, the rewards for further improvement in performance becomes substantially lower. This leads us to consider the *performance constraint hypothesis*. Performance information largely functions as a minimum qualification; recognizing the risks of blame for retaining incompetent agents, political principals disfavor agents with poor performance regardless of their levels of loyalty. The underlying assumption of this hypothesis is that the motivation of blame avoidance is so strong that it outweighs the

motivation of rewarding loyalists. In such a circumstance, the positive impact of loyalty on managerial survival will be salient only among the agents who have achieved an acceptable level of performance. This logic is also consistent with the view that a minimal level of competence is required for effective policymaking (Aberbach and Rockman 2000; Huber and McCarty 2004; Lewis 2008; 2009). The present discussion leads to the following hypothesis:

H4: The impact of loyalty on managerial survival will be least pronounced in cases of low agency performance.

Theoretical Framework

We have thus far presented our hypotheses about how political principals may consider information about loyalty and competence (as measured by performance) in their personnel decisions. Figure 1 demonstrates the hypothesized impacts of loyalty and performance on the expected survival rate of agency heads. In the following empirical analyses, we operationalize the level of disloyalty using political patronage relationships with the previous political principals. To improve readability, however, we placed loyalty instead of either disloyalty or political patronage relationships on the horizontal axis.

Figure 1 effectively illustrates the four formulated hypotheses. The figure shows that, on average, loyalists are more likely to survive than nonloyalists (H1). This hypothesis can be inferred from the figure as the weighted average of the three slopes is positive. The second hypothesis (H2) is also clear from the figure as the curve indicating high (average) performance is located above the curve indicating average (low) performance. The negativity bias hypothesis (H3) may be inferred by comparing the vertical distances between the curves. Specifically, the distance between average and low performance is significantly greater than

the distance between high and average performance (i.e., $\alpha > \beta$ in figure 1). Finally, the performance constraint hypothesis (H4) is depicted by the flat curve of low performance and the positive slopes of average and high performance (i.e., $\gamma > \delta$ in figure 1).

Institutional Background and Empirical Strategy

The Impeachment, Power Vacuum, and Presidential Election

Unlike in the U.S. system, in which the incoming president can remove holdover political appointees from the previous regime "at-will" upon entering office (Lewis 2008), many Western European democracies have adopted meritocratic recruitment regulations and stringent labor laws that insulate bureaucratic expertise from political control (Huber, 2000; Peters and Pierre 2004; Dahlstrom and Holmgren 2017; Pollitt and Bouckaert 2017). The Korean system also implemented several measures resembling the European model. In Korea, the incoming president may remove ministers "at-will," but he or she cannot dismiss agency heads who signed fixed-term contracts with ministers before the contracted term ends, at least not in principle; dismissal of incumbent agency heads must be approved by a nonpartisan committee consisting of public administrators and civilian committee members.[4] Despite such measures, the incoming president often finds ways to remove *some* holdover appointees in practice.[5] Whenever a new president is elected, the news media criticizes the President for firing holdover agency heads and repaying electoral debts by appointing his or her patrons. Presumably, however, incoming presidents may have felt pressured by the tough news media, as they usually do not remove a sizable share of holdover appointees.

[4] The nonpartisan committee makes its decisions by majority vote, but the results are not publicly disclosed.
[5] Some previous holdover appointees confessed later that they received "messages" from the political principal to quit their jobs before their contracted term ended. This practice is illegal, but it still occurs whenever a president is newly elected (Kim and Hong 2019).

In this study, we take advantage of the shift in political leadership immediately following the impeachment of President Park Geun-hye. Park, daughter of the Cold War military dictator Park Chung-hee, had served as the chairwoman of the conservative political party and was often regarded as an icon of the conservative political ideology in Korea. On December 9, 2016, Park was impeached by the Korean National Assembly on charges related to a corruption and cronyism scandal, and lost her presidential powers. On March 10, 2017, Park was removed from office as the court upheld the impeachment. On May 9, 2017, Moon Jae-in, former leader of the liberal political party, was elected as the new president. The new president faced the decision of whether to retain or dismiss 118 agency heads who were appointed by the previous administration. As the two presidents (i.e., conservative Park and liberal Moon) are from opposing political parties, it was expected that many top executives would be replaced even if they had signed a fixed term contract designed to insulate agency management from the whims of political pressures. Among the 118 agency heads, 39 were dismissed by the end of October 2017.

Performance Management System of Public Agencies

This study explores the managerial survival of 118 public organizations (hereafter, "agencies") in Korea. These agencies include state-owned enterprises and other quasi-governmental organizations that are *de facto* controlled by the Korean central government (i.e., ministries); the ministries design policies, while agencies provide public services to citizens based on the designed policies. These organizations are more or less equivalent to the government agencies that are overseen by ministerial departments in New Zealand or European democracies, but they also include state-owned enterprises and the legal status of their employees differs from that of civil servants. These agencies play an important role in the provision of public goods in

Korea, as the total size of annual expenditures spent by all these agencies combined is even greater than the size of annual expenditure of the central government (Hong 2016, 2018). Due to their critical importance in allocating public resources, the profile of the agency heads has often been the focus of media attention. Previous studies have reported that presidents have often appointed close allies as the executives of these organizations (e.g., Schoenherr 2018).

The Korean government launched a performance management system of these public agencies in 1983 (with a substantial modification of the system in 2007). Every year, the Ministry of Strategy and Finance newly organizes an independent committee, comprising civilian experts including professors, lawyers, and accountants, who evaluates the annual performance of those agencies. In 2017, these committee members were appointed by the ministry on March 4, and the evaluation was conducted during mid-March and April. As the evaluation took place during the period of the power vacuum, there was no room for any political influence to interfere in the performance evaluation process.[6] Given the previous evidence that the performance evaluation of public organizations is generally susceptible to political influence, this unique setting is clearly one of the strengths of this study (Lavertu and Moynihan 2012; Lavertu et al. 2013).

In this performance management system, agencies are evaluated according to a set of continuous performance indicators, and each agency is assigned a letter grade (from A to E) based on sharp cutoffs. Specifically, each agency receives one of the following five grades: A (Excellent), B (Average), C (Average), D (Poor), and E (Very Poor). Agencies that received an A, B, or C are provided with bonuses for all their executives and employees. The amount of

[6] We interviewed the chief and key administers of the committee (including Dr. Soon-ae Park who led the committee). One of the interviewees explained that as the evaluation took place in between regimes, when a high level of political uncertainty existed, the committee must have paid special attention to produce unbiased outcomes as any manipulation may face strong punishments from the incoming political power.

financial incentives attached to grade A (grade B) is twice that of the amount attached to grade B (grade C). On the other hand, agencies that received a D or E face a series of formal sanctions including dismissals of top executives; agency heads who received an E or D grade for two consecutive years may be dismissed.[7] Grades B and C are often referred to as "average grades"; grade A is thus regarded as "high performance," whereas grades D and E are "low performance."

To determine performance grades, each agency is placed in one of three types (state-owned enterprises, quasi-governmental organizations, and small organizations). Within each type, agencies received scores based on a number of performance indicators agreed upon between the agencies and regulator. An agency's performance is evaluated by comparing that agency's score to the average score of all the evaluated agencies of the same type. Specifically, grade A is assigned to an agency if its score exceeds the average plus one standard deviation, whereas grades B and C are allocated if the score lies within one standard deviation (either plus or minus) of the average. Finally, grades D and E are assigned if the score is below average minus one or two standard deviations, respectively. Given the use of average and standard deviations for grade assignments, there is little room for the evaluated agencies to either manipulate or predict the levels of the thresholds; the cutoffs are plausibly randomly and exogenously determined.

The way performance outcomes (i.e., grades) are assigned allow researchers to employ an RDD to uncover the impact of performance. Although the grades are assigned based on the continuous score, only the five grades are published and the continuous score is kept confidential.[8] In this system, the simple association between managerial survival and the letter

[7] Even in this case, the nonpartisan committee must approve the dismissal decision. During the studied period, none of the low performing agency heads were dismissed.
[8] The key administrator we interviewed who participated in the evaluation process confirmed that only the five grades (and not the continuous scores) are reported to the presidential office.

grade received by the agencies may be misleading. A legitimate concern is that agencies that received a particular grade (e.g., an A grade) may be different from those that received another adjacent grade (e.g., a B grade) in terms of many unobservable characteristics. The RDD approach can address this challenge under the assumption that the distribution of unobservable characteristics of agencies do not "jump" at each of the thresholds between grades. That is, assuming that the agencies located *just above* and *just below* each of the thresholds are similar in terms of unobservable characteristics, we investigate whether a significant difference exists in terms of managerial survival between those that received a certain grade as their scores barely passed the threshold and those that failed to receive the grade since as their scores fell slightly short of it.

Methods and Data

Method

This study leverages the abrupt and unexpected change in political leadership to examine how political principals weigh political and meritocratic criteria when they retain or dismiss the heads of public agencies. Specifically, we explore how the Moon administration who came to power following the impeachment of President Park Geun-hye considered information on loyalty and competence in deciding whether to retain or dismiss the heads of 118 agencies. We operationalized loyalty (indeed, disloyalty) with an indicator of political patronage relationships with the impeached and ousted President Park. As we explain below, a Korean think tank published the list of agency heads who had been strong supporters of the impeached president based on their partisanships, media interviews, and affiliations with the election campaign. Among the many existing measures of meritocratic criteria, we selected the agency's

performance grade as a proxy for the head's competence.[9] This performance information is widely cited by the news media as the measured level of competency of the top managers.

To examine the loyalty-competence nexus in the retention and dismissal of top management in the public sector, we estimated a regression model of the following form,

$$Y = \beta_0 + \beta_1 D + \beta_2 P^H + \beta_3 P^L + \beta_4 X + F(S) + \nu \qquad (1)$$

where Y is the dependent variable, a dummy variable indicating the survival (i.e., retention) of an agency head. The first treatment variable, D, is an indicator of a political patronage relationship with the impeached and ousted President Park (i.e., whether the agency head can be viewed as a political ally or supporter of the impeached and ousted president). This variable is a plausible measure of disloyalty (or lack of loyalty) to newly elected President Moon given the different political partisanship of the two presidents and polarized political landscape in Korea. The variables P^H and P^L are the two indicators of organizational performance; P^H is an indicator of agencies with above average performance (i.e., grade A), whereas P^L is an indicator of below average performance (i.e., grade D or E). The indicator of agencies with average performance (i.e., grade B or C) is not included in equation (1) due to multicollinearity. The model includes a set of control variables X, and an error term ν.

In equation (1), S is the forcing variable, that is, the continuous score used to determine

[9] We admit that there may be counter arguments. For instance, some may argue that the political principal may have selected those who he/she perceive as competent to lead "tough agencies" (i.e., agencies with low performance due to the nature of their work). In such a case, the outcome of agency evaluations may not accurately represent the "true" competency of agency heads. We fully agree that agency evaluation outcomes may not be a good proxy for the heads' *general competence*. However, in deciding whether to retain or dismiss an agency head, the political principal would certainly consider the evaluation outcomes when judging a top manager's *competence as agency head*. In other words, the evaluation outcome may be the most relevant measure of agency heads' competence in making retention or dismissal decisions. Further, the RDD model can control for such heterogeneities, as agencies located just below and just above each of the cutoffs would have equal chances of being "tough agencies."

the performance grades (i.e., grades A to E). $F(S)$ is a smooth function of the forcing variable, which is modeled with a *p*th order polynomial. We applied a third-order polynomial of S, which is the most widely used form (e.g., Beland 2015), but we also report results with a first-order polynomial to determine whether our findings noticeably change with an alternative specification. Further, we modelled $F(S)$ in that it does not take different forms below and above each of the discontinuities. Such a form of forcing variable modelling is common in studies that apply RDD in the existence of multiple cutoffs (e.g., Rockoff and Turner 2010).

In this study, we presented a simple model that explains how political principals consider political and meritocratic factors in either retaining or dismissing senior management in public agencies. In order to fully test this model, we need to examine how the effects of these two factors interact, for instance, to test whether the effects of poor performance vary between loyal and disloyal agents. We specified this model as follows,

$$Y = \beta_0 + \beta_1 D + \beta_2 P^H + \beta_3 DP^H + \beta_4 P^L + \beta_5 DP^L + \beta_6 X + F(S) + \nu \qquad (2)$$

where the coefficients β_3 and β_5 test the effects of the interactions between the indicators of disloyalty (i.e., D) and organizational performance (i.e., P^H and P^L). In equation (2), the negativity bias hypothesis can be tested by comparing the absolute values of the two coefficients of performance (i.e., whether $\beta_2 + \beta_4 < 0$ holds). The performance constraint hypothesis can be tested by checking whether $\beta_1 + \beta_5$ is close to zero whereas $\beta_1 + \beta_3$ is positive. In such a case, loyalty (and disloyalty) will be a factor of consideration only among those who showed an acceptable level of competence (i.e., performance).

Data and Variables

Table 1 shows summary statistics for all variables included in the analysis. The dependent variable is an indicator of managerial survival. Specifically, it is a dummy variable with a value of 1 if an agency head who held the position as of May 10, 2017 (i.e., the first day of the new administration) is not dismissed as of October 31, 2017, and 0 otherwise. Moon officially became the president on May 10, 2017, one day after the presidential election. President Moon began his term by appointing presidential secretaries and ministers. This process took a few months as the selected ministers had to go through the approval of the National Assembly. Once the appointment process of ministers had been completed, the Moon administration decided whether to retain or dismiss the heads of 118 public agencies. This whole process ended in October. Thus, our dependent variable measured whether the chief executive (i.e., agency head) who led one of the 118 public agencies survived until the end of October 2017.

One of our treatment variables is the level of loyalty to impeached President Park. This variable is measured as a dummy variable indicating the agency head's political support for the impeached president. In November 2016, a Korean think tank, *Public Policy Institute for People (PPIP),* investigated all of the executives of public agencies, and collected information on past partisan elected offices that were held by an executive, mentions in newspaper articles of their partisanship, and affiliation with President Park's past election campaigns, and so on. Based on the collected information, the think tank published a report in which it offered a list of agency heads who are close political allies or followers of the then President Park Geun-hye. As this report did not include all 118 executives who held their positions as of May 10, 2017 (i.e., the day the new president began his term), we performed the same investigation as the PPIP and constructed the variable for all 118 agencies that we studied. The resulting variable is dichotomous.

The other treatment variables are indicators of high and low performance received from

the annual performance evaluation of Korean public agencies. In this system, public agencies are evaluated according to a continuous score, but the final outcomes are published as one of the five letter grades, from A to E. Every year, the results of the performance evaluation receive wide media attention, and the publicity surrounding the outcomes entirely focuses on the letter grades rather than the continuous score. We obtained this confidential continuous score data from the regulator with permission to use it strictly for research purposes. We used the performance outcomes for the year 2016, assuming that the Moon administration considered the most recent performance outcomes for the decision on whether to retain or dismiss an executive.

The organizational performance is measured with two indicators. The first variable (i.e., P^H in equation 1) is an indicator of high performance, which takes a value of 1 if an agency received an A grade and 0 otherwise. On the other hand, the indicator of poor performance (i.e., P^L in equation 1) is a dummy with a value of 1 if an agency received either a D or E grade. This operationalization was based on the fact that grades B and C are widely perceived as "average grades" by the media and regulator. We also included the continuous score that determines the letter grades as a forcing variable for the RDD. This continuous score is standardized such that the mean is zero and the standard deviation is one. The normalization is performed because the letter grades are determined based on the mean and standard deviation; an A grade is achieved if the score exceeds the mean plus one standard deviation, whereas D and E grades are received if the score is below the mean minus one or two standard deviations, respectively.

We also collected a number of control variables from many public sources. We included the number of months left as of May 2017 before the end of the contracted term for each agency head. All chief executives of public agencies sign a fixed term contract with the central

government ministry that governs their operations. We controlled for this variable as this information may be an important consideration for the new president in dismissing an agency head. We also included the yearly salary of each agency head as a control variable. Previous research exploring public employees' turnover decisions found that salary is an important predictor of turnover rates (Grissom et al. 2016; Geys et al. 2017). Although we cannot control for the labor market conditions as we cannot observe the outside options of each agency head, we included the salary level as a proxy for the opportunity costs of being dismissed.

In addition, the model also included the size of annual budget expenditure to control for the amount of resources available to each agency. It is possible that the incoming president may have viewed agencies with greater financial resources as being more important, if he or she wanted to control these resources (Schoenherr 2018). We also added the amount of vertical transfer from central governments, which is a proxy for the degree to which agencies are resource dependent on central governments. Finally, we included an indicator of whether the price of the public service is subject to the regulation (the so-called, "rate-of-return" regulation) by the central government. This decision was based on the fact that agencies subject to rate-of-return regulation such as railway, electricity, gas, and water supply may share unique features that are distinguishable from other agencies.

Results

Graphical Analyses

Before proceeding to our regression analysis, we first present a graphical depiction of our data. First, we plot the average managerial survival rate against the two sets of our key treatment variables in figure 2. We begin by presenting the correlation between average managerial survival and the indicator of political patronage relationships with the impeached President

Park. As can be seen in figure 2.1, the agency heads who had patronage relationships with the previous president were less likely to survive in the new administration. This was expected because the relationship with the previous political leader (who was from the right-leaning party) may be credibly viewed as being disloyal to the new president (who belongs to the left-leaning party) given the polarized political landscape in Korea.

We also demonstrate the correlation between average managerial survival and the three groups of organizational performance outcomes (i.e., poor, average, and good performance) in figure 2.2. As can be seen, the chief executives of agencies that received poor performance grades were less likely to survive and retain their positions. However, little difference was observed in managerial survival between those who received average and good performance grades. Overall, this result provides support for the existence of negativity bias in the relationship between performance and support for the political principal (e.g., Nielsen and Moynihan 2017).

The results shown in figure 2.2, although useful, may suffer from omitted variable bias. Specifically, the agencies that received a good performance outcome may be significantly different from the agencies that received either an average or poor performance in terms of many unobservable characteristics. This concern led us to consider RDD, in which we compare the agencies located *just above* and *just below* each of the thresholds (i.e., cutoffs or discontinuities) between different performance outcomes. In figure 3, we visually inspect whether there is a discrete jump in the dependent variable at each of the thresholds between the three groups of performance outcomes. To do so, we plot the outcomes of the retention and dismissal of top management against the continuous performance score that determines the grades. We then added lines that fit the relationship between the indicator of managerial survival and performance score using the first-order (i.e., linear) and third-order (i.e., cubic)

polynomials in figures 3.1 and 3.2, respectively. In the figures, the observed breaks in the fitted lines, at the margins between the three categories of performance, correspond to the impact of performance on managerial turnover. As can be seen, the magnitude of the break is significantly greater between poor and average performance, which is consistent with the result in figure 2.2, but we also observe a break between average and good performance. These results indicate the positive impact of organizational performance on managerial survival. In the next section, we present evidence from the regression analyses with full control variables that provides point estimates and standard errors on the qualitative findings from these graphs.

Regression Analyses

In this section, we present the results of regression specifications in the form of equations 1 and 2. As the dependent variable is a dummy variable, we employed logistic regressions for both models. In table 2, we demonstrate the results of equation 1. In column 1, we applied a linear form of the forcing variable, whereas we used a more flexible cubic form in column 2. Overall, the results show the clear impact of loyalty on managerial survival; the agency heads who had political patronage relationships with the impeached president were significantly less likely to retain their positions in the subsequent new administration.

The results in table 2 also show that political principals consider the measured level of competence (i.e., organizational performance) in deciding whether to retain or dismiss agency heads. The coefficients of good and poor performance in table 2 should be interpreted as the results of RDD with full controls as we included the forcing variable that determines the grade. Overall, findings suggest that the executives of the agencies that received good performance grades were significantly more likely to survive during the change in political environment. On the other hand, the impact of poor performance was estimated to be substantially larger than

the impact of good performance. However, the results somewhat varied between the two specifications, only obtaining statistical significance at a conventional level in column 2. However, one should be cautious in interpreting the nonsignificant coefficient of poor performance in column 1 especially due to the large size of the point estimate. This is because a lack of statistical significance may not necessarily be a sign of a negligible effect (Rainey 2014). We will thus leave the decisive interpretation of this coefficient until we look at the regression results of equation 2.

The findings from the additive models in table 2 lead us to conclude that both political and meritocratic considerations matter for top managerial turnover and survival. One difficulty with this model is that it fails to consider how the interplay between the political and meritocratic factors is accounted for in the political principal's decision-making. We address this issue by estimating models (Table 3) that include interactions among the treatment variables consistent with our theoretical hypotheses. As can be seen in table 3, the conclusions drawn from the additive models all remain valid, suggesting the significant impact of both political and meritocratic criteria on managerial survival. The coefficients of poor performance are large and statistically significant in both specifications, which once again corroborates the existence of negativity bias in the consideration of competence.

The coefficients of the two interaction terms reveal the significant interplay between the two types of consideration and provides support for our hypotheses. The results indicate that whether an agency head had a patronage relationship with the impeached president is an important consideration for managerial survival only if the agency received either an average or good performance outcome. For the agencies with poor performance outcomes, the executives' patronage relationships did not matter for their survival in the new administration. Our evidence unequivocally lends strong credence to the hypothesis that meritocratic criteria

function primarily as a minimum constraint; political principals try to reward loyalists but only among those who exceed an acceptable level of competence.

In figure 4, we graphically show the estimates from table 3 to refocus attention on the larger theoretical claims of this study. The graph shows the relationship between the managerial survival of agency heads and the measured levels of political and meritocratic criteria. The graphs in figures 4.1 and 4.2 are drawn based on the coefficients from columns 1 and 2 of table 2, respectively. As can be seen, the two figures in Figure 4 both resemble the theoretical expectations appearing in Figure 1, except that the horizontal axes are the measured levels of disloyalty rather than loyalty; once the horizontal axes are flipped, both figures exhibit the key features of the theoretical relationships. Specifically, the results in Figure 4 confirm the existence of negativity bias in the relationship between performance and managerial survival. Political criteria matter only among those whose measured levels of performance exceed an acceptable level.

Discussion and Conclusion

In this study, we explored how political principals, and elected officials more broadly, may consider political and meritocratic criteria when they appoint, retain, promote, and dismiss top public managers. Previous studies report the importance of loyalty but are not clear as to how loyalty is weighed against competence when the two sets of information conflict with one another. This study addresses this paucity by leveraging the abrupt shift in political leadership that occurred in Korea. In October 2017, Korean President Park Geun-hye was impeached. Newly elected President Moon Jae-in faced the decision of whether to retain or dismiss 118 agency heads whose fixed term contracts with the previous administration had not been terminated. We investigated how loyalty and competence (as measured by performance) are

factored into the personnel decisions of these public agencies.

This study proposed a model in which (1) political principals' punishment for low performance is greater than their rewards for good performance (negativity bias hypothesis), and (2) political principals reward loyalists but only if their performance outcomes exceed a set of minimal acceptability criteria (performance constraint hypothesis). The negativity bias hypothesis is inferred from the evidence that politicians tend to be blame avoiders rather than credit claimants (e.g., Weaver 1986; Hood 2011; Nielsen and Moynihan 2017); recognizing the risks of blame for retaining incompetent agents, political principals disfavor agents with poor performance more than they favor agents with high performance. The performance constraint hypothesis is based on the premise that the motivation of blame avoidance is so strong that it may outweigh the motivation of rewarding loyalists. In such a circumstance, the positive impact of loyalty on managerial survival will be salient only among the agents who have achieved an acceptable level of performance regardless of their levels of loyalty.

Overall, the results of our empirical analyses provide broad support for the proposed hypotheses. Specifically, we demonstrate that the agency heads who have political patronage relationships with impeached President Park were less likely to survive in the new administration. This evidence shows the importance of loyalty (and disloyalty in this case) in public personnel decisions. However, we still present the strong relevance of performance in top managerial survival; the heads of agencies with high (average) performance were more likely to survive than those with average (low) performance. Further, the impact of performance on managerial survival and turnover was clearest among the agencies that received low performance grades, which supports the negativity bias hypothesis. Finally, the results also lend support to the idea that political principals try to reward loyalists but only among those who showed an acceptable level of competence.

This study makes several important contributions to the scientific study of bureaucracy. First, our findings show that political principals are not pure loyalty-maximizers; they do consider the competence and expertise of agents (e.g., Gailmard and Patty 2007). Prior research has generally reported the triumph of loyalty over competence in political principals' decision-making. Although we fully acknowledge the influence of political criteria, our research challenges this view by demonstrating the strong influence of performance (especially low performance) on top managerial survival. This evidence indicates that previous findings reporting a null effect of performance information on high-level political decision-making in the U.S. may not necessarily apply to other democracies with institutional systems of political insularity. Second, this study advances our understanding of the political use of performance information by taking advantage of observational data with unique features. There is growing evidence reporting negativity bias in public managers' use of performance information (e.g., Holm 2018; Flink 2018), but research on how politicians respond to performance information is relatively scarce. Further, the extant research has often relied on survey data (e.g., Christensen et al. 2018; Nielsen and Baekgaard 2013; Nielsen and Moynihan 2017). To our knowledge, there have been few observational studies that explore how performance information affects political decision-making for salient and high-profile issues. This study fills this gap in the literature.

Overall, our findings suggest that "management matters" for political decision-making. Ever since Woodrow Wilson's essay, "The Study of Administration," called for a clear distinction between politics and administration, merit-based civil service institutions have often been regarded as a way to protect bureaucratic expertise from political opportunism (e.g., Roberts 2019). The findings of this study suggest that designing and implementing a rigorous performance management system may significantly contribute to the dichotomy between

politics and administration; the availability of performance information helps political principals assess the competence and expertise of their agents, which may contribute to the accomplishment of the principal's policy goals.

Finally, we need to stress that our findings come from a single unique case. The unexpected shift in political leadership in Korea has offered a unique opportunity for researchers to obtain internally valid estimates. However, the external validity of these estimates must be tested in a variety of different contexts, such as different presidents, different countries, and different institutional environments, to name a few. Nevertheless, we believe that this study's findings provide a useful benchmark that may serve as a point of comparison for future work on top managerial turnover. We look forward to much-needed empirical evidence from various contexts, which will expand our understanding of how political principals make personnel decisions.

FIGURE 1. Theoretical Relationship among Loyalty, Performance, and Managerial Survival

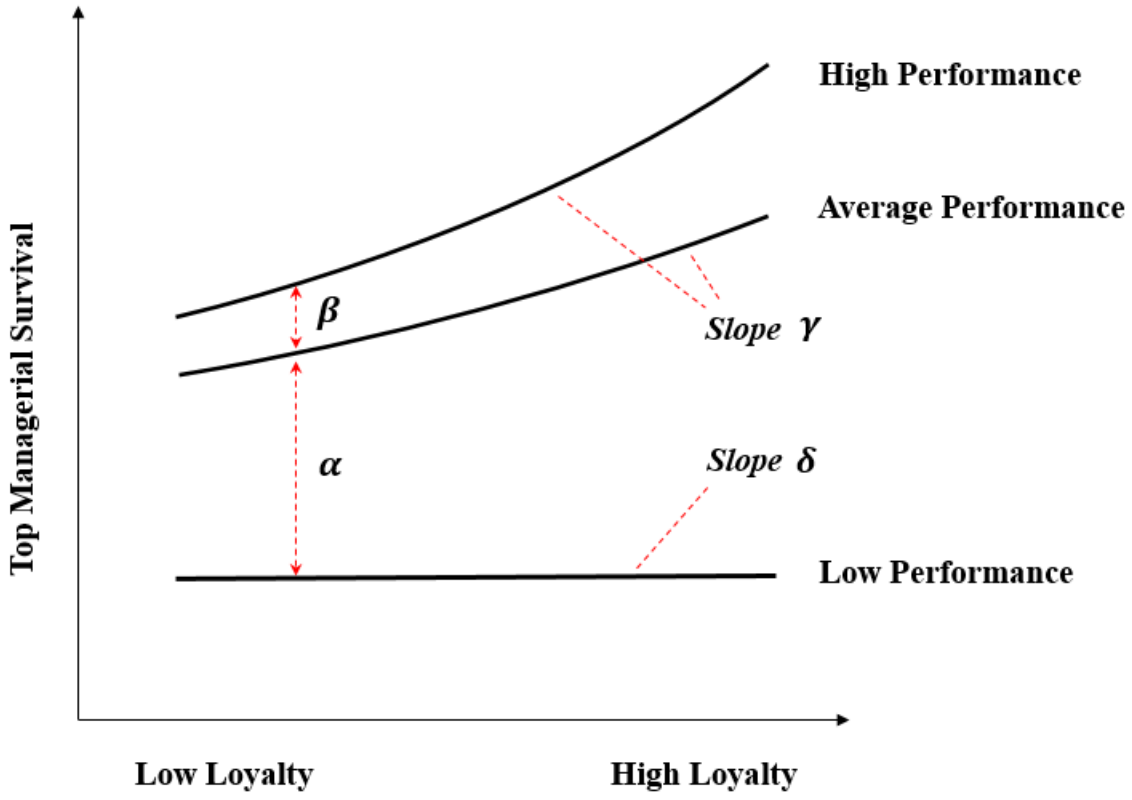


FIGURE 2. Average Managerial Survival Rate by (Dis)loyalty and Competence

Fig. 2.1.
(Dis)loyalty and Top Management Turnover

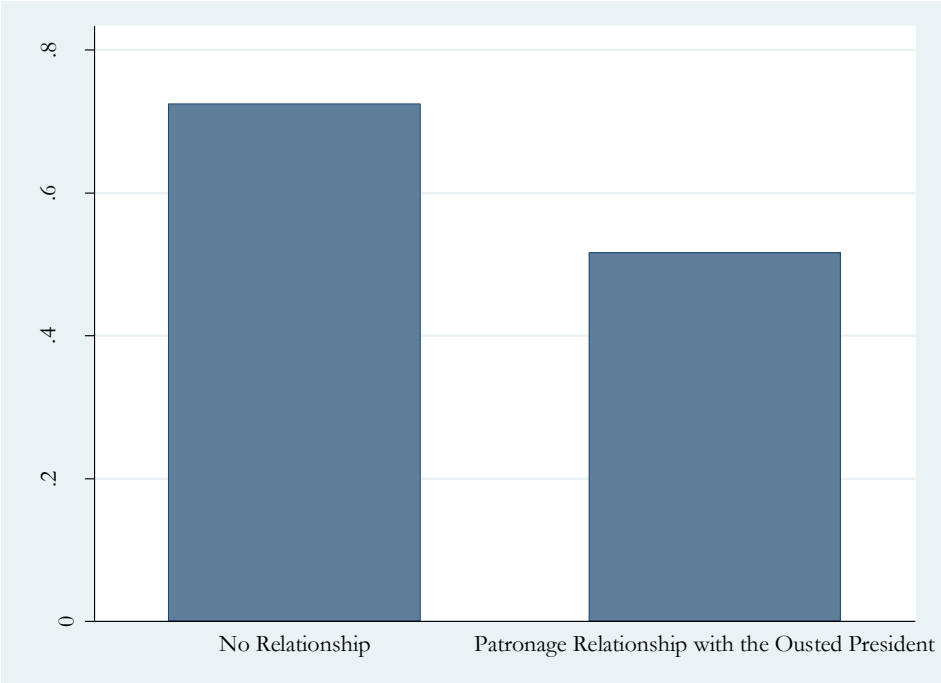


Fig. 2.2.
Competence and Top Management Turnover

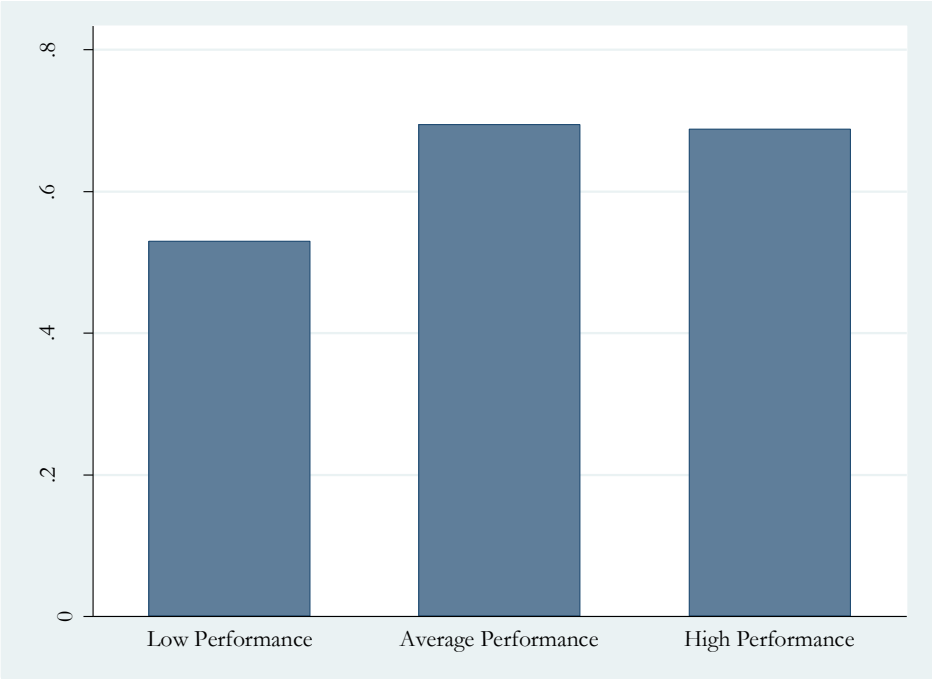


FIGURE 3. Top Management Survival and Turnover by Organizational Performance

Fig. 3.1.
1st Order Polynomial Model of Forcing Variable

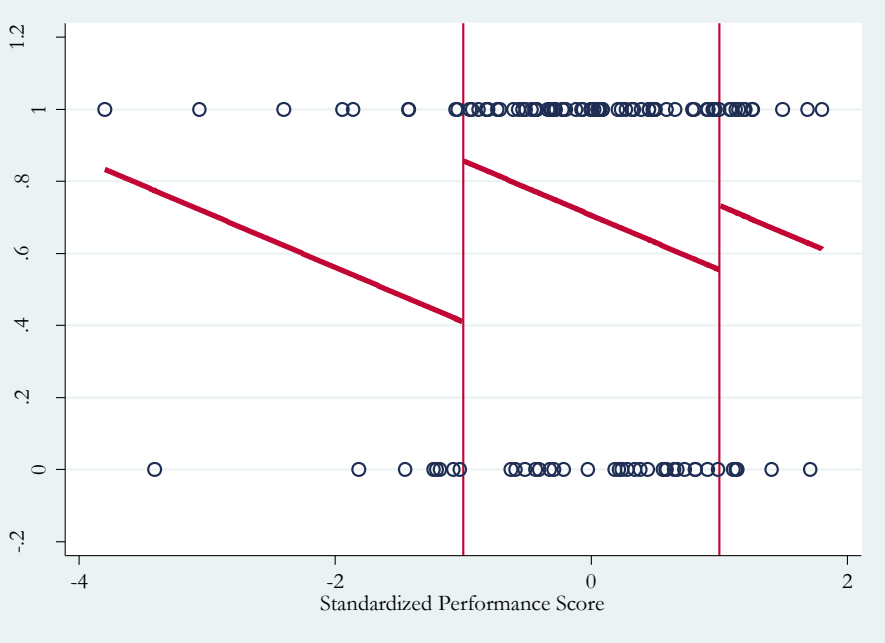
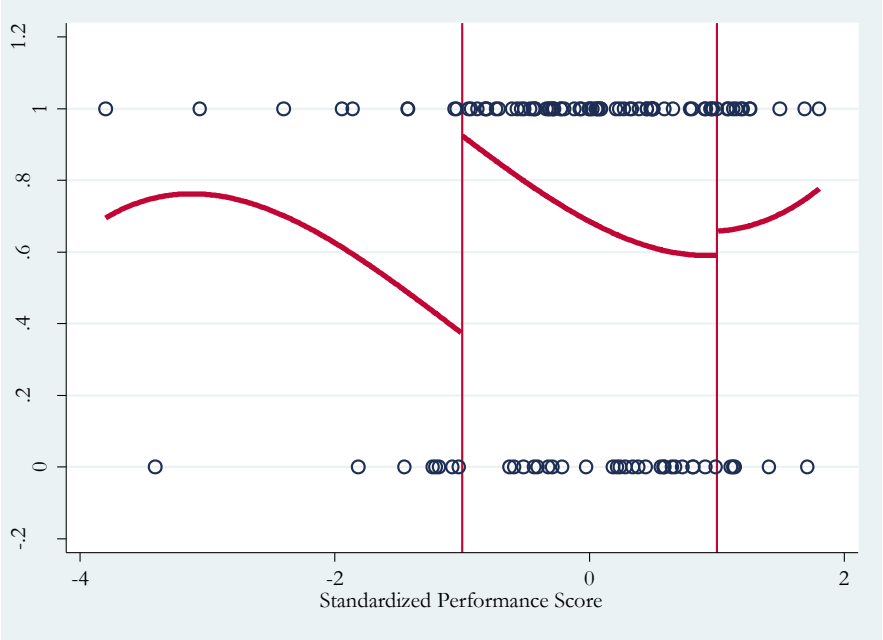
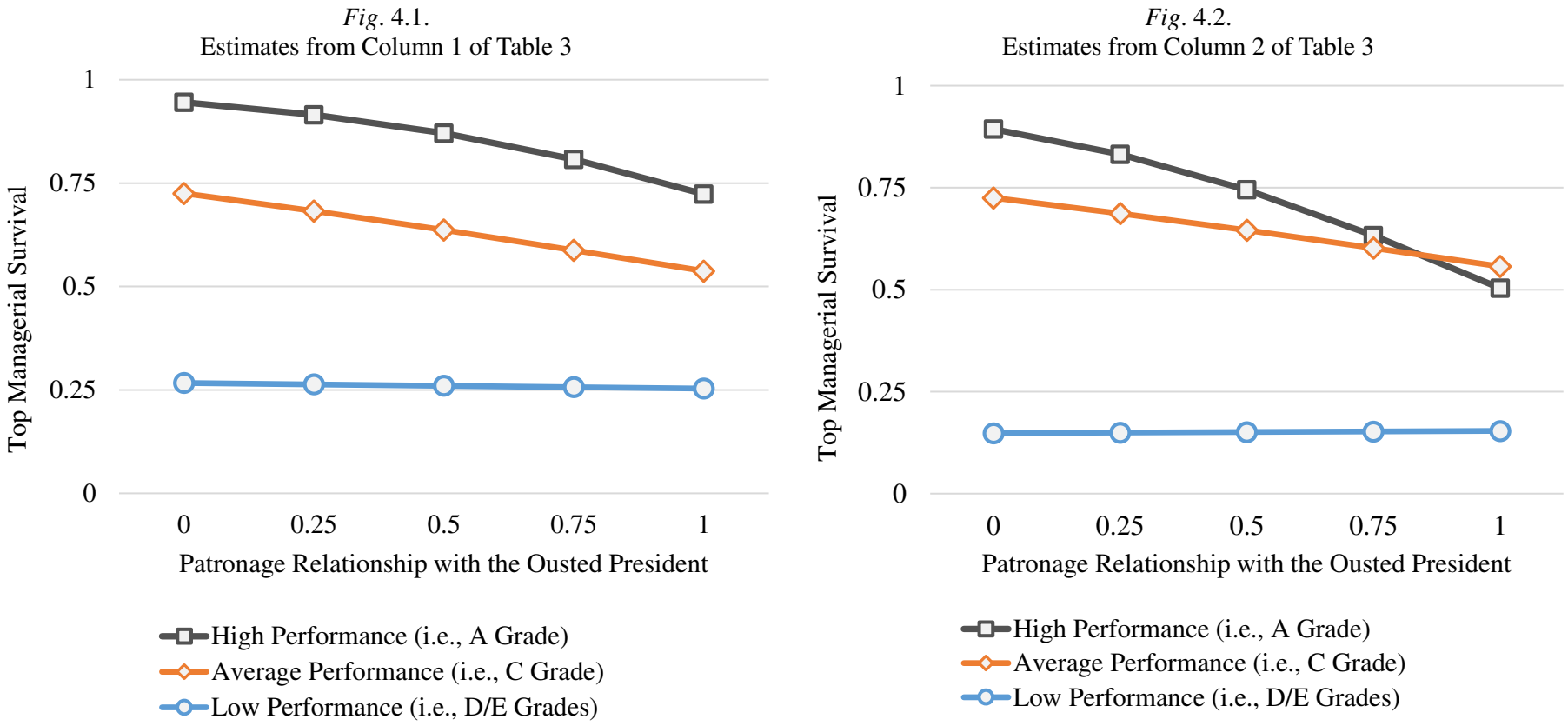


Fig. 3.2.
3rd Order Polynomial Model of Forcing Variable



Note: The horizontal axis represents the continuous performance scores that determine the letter grades, whereas the vertical axis is a dummy variable indicating managerial survival (i.e., 1 if the agency head is not removed, and 0 otherwise). The performance score is standardized such that the mean is zero and the standard deviation is one. The normalization is performed because the letter grades are determined based on the mean and standard deviation; an A grade is achieved if the score exceeds the mean plus one standard deviation, whereas D and E grades are received if the score is below the mean minus one or two standard deviations, respectively. In each figure, the two vertical lines are the thresholds between high performance (i.e., A) and average performance (i.e., B/C) as well as between average performance (i.e., B/C) and low performance (i.e., D/E).

FIGURE 4. Statistical Relationships among Loyalty, Performance, and Managerial Survival



Note: We calculate the numbers in the figures directly from the estimates in table 3. Setting control variables (except for the forcing variable) at their means, we took the product of the estimated coefficients and values, and then summed up these quantities. We then added this value to the values we get for different configurations of the key variables (i.e., the patronage relationship with ousted President Park and performance outcomes).

TABLE 1. Summary Statistics

Variables	Obs.	Mean	Std. Dev.	Min.	Max.
Top managerial survival	118	.67	.47	0	1
High performance (i.e., grade A)	118	.14	.34	0	1
Low performance (i.e., grade D or E)	118	.14	.35	0	1
Patronage relationship with ousted President Park Geun-hye	118	.26	.44	0	1
Remaining contractual tenure (in log)	118	2.34	1.21	0	3.53
Yearly Salary (in log)	118	11.9	.14	11.7	12.3
Budget size (2016; in 10 billion Korean Won)	118	35.4	101	.11	686
Government transfer (2016; in 10 billion Korean Won)	118	4.90	19.2	0	177
Price regulated	118	.04	.20	0	1
Standardized score (i.e., continuous metric that determines the letter grades)	118	0	1	-3.80	1.80

TABLE 2. The Determinants of Top Managerial Survival: Main Effects

	Dependent variable: Top managerial survival	
	(1)	(2)
Patronage relationship with ousted President Park	-.843**	-.825**
	(.315)	(.297)
High performance	1.443**	.863**
	(.196)	(.407)
Low performance	-1.720	-2.281**
	(1.118)	(.910)
Remaining contractual tenure (in log)	.843*	.824*
	(.448)	(.436)
Yearly salary (in log)	.596	.523
	(.931)	(.820)
Budget size	.006*	.006**
	(.003)	(.003)
Government transfer	-.014	-.014
	(.009)	(.009)
Price regulated	-1.680**	-1.836**
	(.715)	(.526)
N	118	118
Pseudo R^2	.221	.225

Note: Robust standard errors in parentheses, * $p < 0.10$, ** $p < 0.05$; the dependent variable is a dummy variable with a value of 1 if an agency head is not removed from the position (i.e., survival), and 0 otherwise (i.e., turnover); all specifications control for either the linear (column 1) or cubic (column 2) form of the continuous scores (i.e., the forcing variable) that determine the letter grades.

TABLE 3. The Determinants of Top Managerial Survival: Interactions Effects

	Dependent variable: Top managerial survival	
	(1)	(2)
Patronage relationship with ousted President Park	-.820**	-.741**
	(.307)	(.314)
High performance	1.881**	1.157**
	(.0777)	(.172)
Low performance	-1.981*	-2.719**
	(1.135)	(1.134)
High performance x Patronage relationship with Park	-1.070**	-1.371**
	(.115)	(.234)
Low performance x Patronage relationship with Park	.750**	.785*
	(.181)	(.436)
Remaining contractual tenure	.853*	.838*
	(.475)	(.467)
Yearly salary	.399	.331
	(1.131)	(.980)
Budget size	.006*	.006**
	(.003)	(.003)
Government transfer	-.014	-.014
	(.010)	(.010)
Price regulated	-1.883**	-2.071**
	(.846)	(.717)
N	118	118
Pseudo R^2	.227	.233

Note: Robust standard errors in parentheses, * $p < 0.10$, ** $p < 0.05$; the dependent variable is a dummy variable with a value of 1 if an agency head is not removed from the position (i.e., survival), and 0 otherwise (i.e., turnover); all specifications control for either the linear (column 1) or cubic (column 2) form of the continuous scores (i.e., the forcing variable) that determine the letter grades.

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